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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 12/30/08

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Economy in trouble:

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Articles:

1) Gov't to send MSDF officers to antipiracy command

SANKEI (Page 1) (Abridged)  
December 30, 2008

The government decided yesterday to participate in a contact group (CG) that will serve as an anti-piracy headquarters, which will be set up as early as next spring under the United States' initiative against pirates who are rampant off the coast of Somalia in Africa. The CG is expected to locate its office in Bahrain, where the U.S. Navy's 5th Fleet is headquartered. The government is considering sending several Maritime Self-Defense Force officers to the CG office. The sea off the Somalia coast is a hot spot for piracy, and the security of sea lanes there is critical for Japan's imports of crude oil. The government therefore judged that Japan should take a proactive role in operations to mop up the pirates there.

The CG will serve as an international cooperation mechanism for multilateral naval forces and international organizations, including the United States and Britain, to share intelligence and coordinate activities. Prime Minister Taro Aso will meet with U.S. Secretary of State Rice, who is scheduled to visit Japan early in January next year, and in their meeting, Aso will tell Rice that Japan will send MSDF destroyers and will also participate in the CG from the start.

The United Nations Security Council met on Dec. 16 and unanimously adopted Resolution 1851 to allow military operations in Somalia and in its territorial airspace. The UNSC resolution proposes setting up an international cooperation mechanism among various countries and relevant organizations for every aspect of antipiracy measures. The

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U.S. government intends to weigh coordination in the CG for naval operations and is seeking participation from merchant shipping and insurance companies that have information about shipping services.

In the international community's antipiracy efforts off Somalia, a total of 15 countries have already dispatched naval vessels. In addition to the United States, Russia is also conducting naval activities there to watch out for pirates. A European Union fleet is also on a mission, following the North Atlantic Treaty Organization (NATO). China has also sent three naval vessels.

In this connection, the government will send personnel from the Foreign Ministry and the Land, Infrastructure and Transport Ministry to an international conference of the International Maritime Organization (IMO), which will be held in Djibouti, Africa, from Jan. 26 next year. On that occasion, Japan will announce its plan to cooperate with a piracy intelligence sharing center, which is being planned by 21 countries around Somalia. The center is modeled after a multilateral mechanism under the Asia Antipiracy Regional Cooperation Agreement, which came into effect in 2006 under Japan's initiative against pirates in the Straits of Malacca. It is for neighboring countries to share information about suspicious ships and pirate attacks.

2) China to build flattops for 1st time

ASAHI (Top play) (Abridged)  
December 30, 2008

BEIJING-The Chinese military will begin in 2009 to build aircraft carriers in Shanghai for the first time and will complete two midsize carriers weighing 50,000-60,000 tons by 2015, according to military and shipbuilding company sources. In addition, the Varyag, a Soviet-made 60,000-ton aircraft carrier, which is currently moored in the port of Dalian, Liaoning, will shortly complete its renovation and is expected to be recommissioned for training purposes. Carrier-borne aircraft pilot training has also begun.

Recently, Huang Xueping, a spokesman for the Chinese Defense Ministry, referred to the possibility of building aircraft carriers. His positive remarks drew various countries' attention. However, this is the first time that the plan has been unveiled. China's flattop deployment will enhance its naval power projection. In that case, it will likely affect the military balance in East Asia.

## A step to swing strategy for sea interests

Takushoku University Professor Ikuo Kayahara, former chief researcher at the National Institute for Defense Studies (NIDS), says: "Aircraft carriers are the pillars for the Chinese military to reinforce its naval forces. To begin with, it strongly means that China will try to expand the buffer zone in order to protect its coastal areas from the threat of the United States and secure its sea interests. This is the first step of a strategy for China to become a seafaring power swinging into the West Pacific."

3) LDP's Kato, Yamasaki may form new party, splitting the party;  
Study group to be launched next month

YOMIURI (Page 1) (Excerpts)  
December 30, 2008

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The Liberal Democratic Party (LDP) is being wracked by moves within the party that could lead to a split after New Year's, with some leaving the party and others possibly forming a new party. It is possible that former LDP Secretary General Yoichi Kato, former LDP Vice President Taku Yamasaki and others may form a new party prior to the next Lower House election, starting with the launching of a new study group possibly in January. In addition, some junior to mid-level LDP lawmakers, reacting sharply to the government's handling of the issue of turning highway-related revenues into general funds, are considering defying their party when relevant bills come up for a vote. On the Democratic Party of Japan (DPJ) side, as well, a stance has been taken to strengthen moves to encourage rebellion and defection from the LDP. Tension is expected to build in the regular Diet session that opens January 5 which could lead to political realignment.

The study group that Kato, Yamasaki and others plan to form is expected to have five to ten members, including LDP lawmakers, scholars, and academics. Its main theme will be, "What form Japan the state should take and what choices it should consider?" It aims to consolidate forces with those who take a stance critical of the structural reform line, having raised the slogan, "Correct market fundamentalism that has gone too far." It is expected that some DPJ lawmakers will link up with the group, and that even the New Komeito may possibly seek to cooperate with it.

4) Foreign direct investment for April-October period declines 40 PERCENT ; Inflows in fiscal 2008 to mark yearly drop first time in five years

NIKKEI (Top Play) (Excerpts)  
December 30, 2008

The global financial crisis has applied the brakes to foreign direct investment (FDI) in Japan, including purchases and acquisitions of Japanese firms and establishment of branches in Japan. Investment inflows for the April-October period in 2008 plummeted 40 PERCENT below the same period a year ago. FDI is expected to mark the first year-on-year decline in fiscal 2008 since fiscal 2003. Foreign companies now tend to favor inward investment, given the weakening of their capital bases. Cases of companies withdrawing their presence or capital from Japan are expected to increase in the future. The reduction in capital inflows may be a further drag on the Japanese economy.

According to statistics from the Finance Ministry and the Bank of Japan, foreign direct investment totaled 3.42 trillion yen for the April-October period, down 36 PERCENT from the same period a year ago. In fiscal 2007, foreign investments came to about 9 trillion yen, or about 700 billion yen a month. But the figure for fiscal 2008 has shrunk to about 300 to 400 billion yen a month since August.

5) Government, BOJ eye resumption of purchase of nonperforming loans as early as in March

The government and the Bank of Japan (BOJ) are studying the possibility of introducing a new system to purchase wide-ranging financial assets, including nonperforming loans held by financial

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institutions, by using public funds, according to informed sources yesterday. They intend to revive and expand the measure that the government carried out through the Deposit Insurance Corporation (DIC) starting in fiscal 1999. The items subject to the measure will be expanded to cover debentures purchased by banks from customers, commercial paper (CP), stock holdings, and derivatives. The government intends to submit bills amending relevant laws to the ordinary Diet session, which opens early next year, work out details, and introduce the new system as early as late March. The total amount of purchases is estimated to reach roughly 10 trillion yen.

Nonperforming loans are expected to significantly increase in the future given the rapidly worsening of the domestic economy. By enhancing banks' power with the new system covering wide-ranging financial assets, the government aims to ease their credit grip and help companies in raising funds.

BOJ Governor Masaaki Shirakawa proposed the plan to resume purchasing financial assets to Finance Minister Shoichi Nakagawa in early December. Since then, study has been conducted behind the scenes.

Under the measure taken since fiscal 1999, the DIC issued bonds with the government's guaranteeing of repayments as means to procure funds. The Resolution and Collection Corporation under the DIC purchased bonds and collected bonds. When losses were accrued, the losses were covered with tax money.

The government and the BOJ are planning to revive a mechanism similar to this measure and increase items subject to the system.

In resuming the purchase of financial assets, revising the Financial Reconstruction Law will be necessary. In the DIC, 52 trillion has been set aside to deal with financial institutions' failures for next fiscal year. The government will coordinate views on whether to use the 52 trillion yen or establish a new framework.

#### 6) IT strategy to focus on job creation

NIKKEI (Page 2) (Abridged)  
December 30, 2008

The government will launch a new information technology (IT) strategy in March next year to cope with the economic crisis. The new strategy, called an IT 3-year emergency plan, will set forth such measures as constructing an infrastructure for the broadband networking of public organizations and other end users, aiming to create new jobs and expand domestic demand. This is in response to Prime Minister Taro Aso's scenario for economic recovery in three years. In June next year, the government will also work out mid- and long-term IT strategies to push for a turnaround of the economy in full swing.

The government will set up a special study group to discuss future IT strategies, involving local government leaders, university professors, business community representatives, and Internet providers. The study group will discuss the emergency plan and mid- and long-term strategies. In addition, the group will also submit a report of recommendations to Aso on ways to push for e-government.

#### 7) Japan's diplomatic skills to be tested in bringing about

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agreement on post-Kyoto mechanism

A decision has been made for a new international framework to be formed in 2009 to fight global warming, following the expiration of the Kyoto Protocol. But difficult negotiations are expected against the backdrop of the ongoing global economic crisis. Environment issues are within Japan's realm of expertise. Japan's diplomatic skills will be tested in the negotiations.

Senior Foreign Ministry officials have cited the issue of climate change, as well as U.S. policy following the inauguration of the Obama administration, as major diplomatic tasks that Japan will face in 2009.

Japan put forth the goal of halving global greenhouse gas emissions by 2050, as the chair of the Hokkaido Toyako Summit. Given this, Japan hopes to play up leadership in bringing about an agreement in the 15th session of the Conference of the Parties to the UN Framework Convention on Climate Change (COP15) to be held in Copenhagen late next year.

But negotiations are unlikely to go smoothly. In the COP14 held in Poland, no agreement was reached as industrialized and developing countries remained at loggerheads.

Developing countries want their burden to be reduced as much as possible, as seen from a call for 1990 to continue to be the benchmark year for emissions cuts. Some have suggested that only simple revisions be made to the Kyoto Protocol.

Moreover, since curbing carbon dioxide (CO2) emissions will be a heavy burden for economically weak countries due to the ongoing economic crisis, these countries are putting up stiffer resistance.

The Japanese government is preparing a "Cool Earth Partnership" system worth 10 billion dollars (approximately 900 billion yen) to offer non-reimbursable aid for developing countries' efforts to protect the environment. While continuing to exert influence over developing countries, the government wants to bring about a settlement in negotiations.

Even so, one negotiator takes this view: "Although some are calling for setting several years as the benchmark years, stormy sessions are expected in the negotiations."

A government source has already indicated a pessimistic prospect about an agreement in 2009, saying: "Negotiations might continue into 2010."

8) Japan does not intend to join renewable energy agency, judging that it duplicates the IEA

The government yesterday decided not to join the International Renewable Energy Agency (IRENA), which will be launched next month with the aim of expanding the use of such energy sources as sunlight and wind. The reasons for not joining IRENA include the judgment

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that its function duplicates that of the International Energy Agency (IEA), in which Japan has an executive director's seat. However, some have pointed out their concern that Japan is likely to be criticized by the international community as turning its back on the environment problem.

IRENA will be established with Germany as the central member. In order to deal with global warming and the exhaustion of supplies of fossil fuels, participating countries will promote such efforts as technology transfers related to renewable energy, capital procurement, and information exchanges.

Japan has been asked repeatedly by Germany to join, but it has decided for the time being to put off joining, with one senior

Foreign Ministry official criticizing, "The IEA is already tackling the problem of expanding the use of renewable energy, so another agency is not needed." There is also the possibility that Japan would be asked to provide several hundred million yen annually to help fund the agency. Being in the midst of a severe fiscal situation also has made Japan hesitant about joining.

However, the IEA consists of 28 members that are mainly advanced industrial countries. In contrast, IRENA is expected to have the participation of dozens of countries including those from the developing world. Within the Japanese government there is the view of actively using IRENA, citing the challenge in measures to counter global warming of how to engage both the advanced countries and the developing countries at the same time. Some also have pointed out the benefits to Japanese companies that would accrue, with one government source saying, "If we join IRENA, it would be useful for the dissemination of Japanese technologies in such areas as solar power.

The United States, too, has not been inclined to join IRENA, but President-elect Obama has stressed shifting from fossil fuels to renewable energy sources. So some Japanese officials expect that the U.S. policy may change with the new administration.

ZUMWALT